Audit of Forest Planning and Practices
S.W.C. Holdings Limited

Forest Licence A16848

FPB/ARC/77

January 2006

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Board Commentary

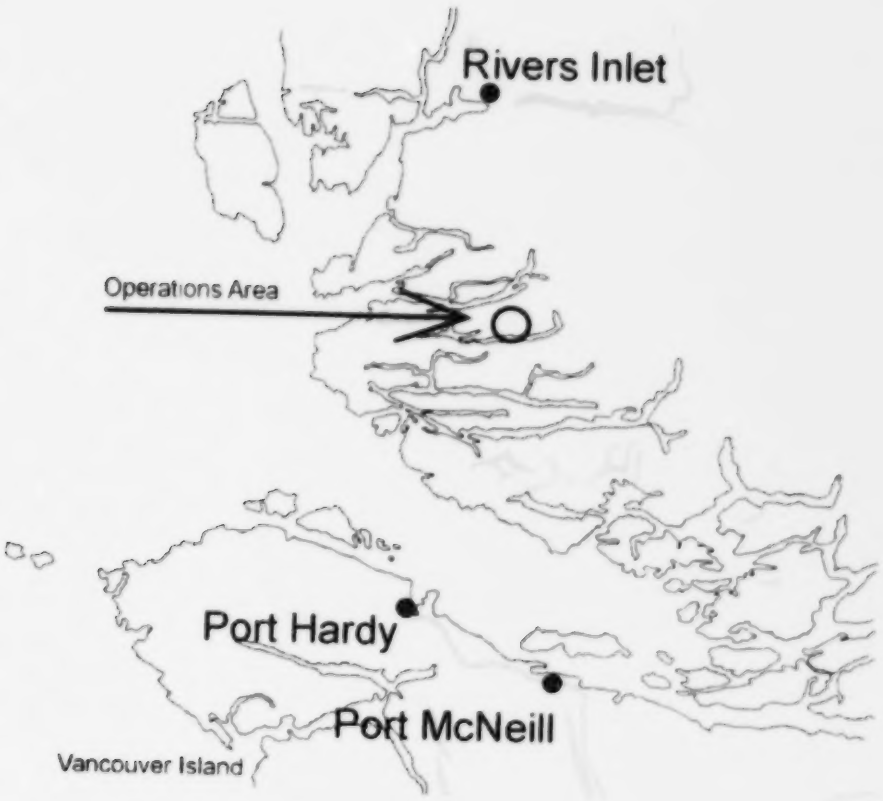
Forest licences with a relatively small allowable annual cut are expected to be a growing trend in BC, with the implementation of the 20 percent tenure take-back policy by the provincial government. Many small licence holders are new to the forest sector. As a result, the Forest Practices Board is directing some of its audit resources to examining small tenure-holders, and assessing their ability to meet stewardship obligations, while being sensitive to the small scale of their operations.

S.W.C. Holdings Limited (SWC) has held its forest licence since 1990, so it is not a new entrant to the forest sector. However, with an allowable annual cut of less than 20,000 cubic metres, it is considered a small tenure.

After SWC was randomly selected for audit, the Board learned that, under the terms of a management agreement, International Forest Products Limited (Interfor) actually planned and conducted all forest practices related to SWC's forest licence since 2000. Interfor operates in the same area as SWC and logged SWC's cutblocks in conjunction with its own, using the same access roads and in accordance with the same forest development plan.

While the Board audited a small licensee, the activities were carried out by a large, sophisticated and certified forest products company. The end result is a good one. The Board is pleased to report that SWC's planning and practices complied in all significant respects with legislated requirements.

Audit of
S.W.C. Holdings Limited
FL A16848



Highway

FL A16848

(Map not to scale)

Enlarged area

Audit Results

Background

As part of its 2005 compliance audit program, the Board selected forest licence (FL) A16848 for audit. The licence is held by S.W.C. Holdings Limited (SWC), and was selected randomly, from the pool of licences with 100,000 cubic metres or less of annual allowable cut, and not based on location or level of performance. The licence is in the Mid-Coast Timber Supply Area and has an allowable annual cut of 19,463 cubic metres. All harvesting activity during the audit period took place near Long Lake, approximately 70 kilometres north of Port Hardy on the mainland coast (see map on page 2).

On July 7, 2000, SWC entered into a management agreement with International Forest Products Limited (Interfor). Under the terms of the agreement, Interfor is responsible for all activities related to the planning, harvesting, and regeneration of cutblocks under the forest licence.

One of four SWC cutblocks audited

In practice, Interfor planned cutblocks for its own needs and additional blocks for SWC in its 2001-2005 forest development plan (FDP)[1] for FL A16850. When it came time to harvest the SWC blocks, Interfor applied for cutting permits under SWC's licence number. As a result there is no separate FDP for FL A16848.

SWC and Interfor's cutblocks are located in the same area. Interfor roads were used to access the cutblocks and Interfor crews harvested them. Planting will be done at the same time as the Interfor blocks are planted.

Despite the management agreement, SWC is ultimately responsible for all obligations related to the forest licence because it is the licensee.

Audit Approach and Scope

The audit examined SWC's planning, field activities and obligations in the areas of:

- operational planning (including FDPs and site plans[ii]);
- timber harvesting;
- road construction, maintenance and deactivation;
- silviculture; and
- fire protection.

These activities were assessed for compliance with the *Forest Practices Code of British Columbia Act* (the Code), the *Forest and Range Practices Act* (FRPA)[iii], and the *Wildfire Act* (WA).

All activities, planning and obligations for the period October 1, 2004, to October 4, 2005, were included in the scope of the audit. The fieldwork took place on October 4, 2005.

There is no higher level plan[iv] applicable to the audit area and period.

The Board's *Compliance Audit Reference Manual, Version 6.0, May 2003*, and the addendum to the manual for the 2005 audit season, set out the standards and procedures that were used to carry out this audit.

Planning and Practices Examined

Forest practices were planned and approved under Interfor's 2001-2005 forest development plan for FL A16850. The Board audited the sections of the plan that pertain to SWC's activities.

The Board audited all four SWC cutblocks, totaling 105 hectares. These cutblocks were harvested, or partially harvested, by Interfor on behalf of SWC during the audit period.

Interfor holds a road permit for the main road that accesses the four SWC cutblocks. This road was not audited because it is not associated with SWC's forest licence. However, roads were constructed within the four cutblocks to access timber, and these in-block roads were audited at the same time as harvesting activities.

SWC is required to regenerate cutblocks that it harvested over the term of the licence, and ensure that regenerated stands are free growing. The audit team reviewed the history of the licence and determined there were no regeneration or free-growing obligations that had not been met.

One 13.7-hectare cutblock on Walbran Island was planted by Interfor during the audit period.

Fire preparedness and practices were also audited. However, no operations were underway on the day of the audit; consequently, auditors could not perform fire tool inspections. Under the

Wildfire Regulation, licensees are responsible for submitting contact names and phone numbers to the fire centre, and this was audited.

Audit Opinion

In my opinion, the operational planning, timber harvesting, silviculture, road construction and maintenance, and fire protection activities undertaken by S.W.C. Holdings Limited on forest licence A16848 from October 1, 2004, to October 4, 2005, complied in all significant respects with the requirements of the *Forest Practices Code of British Columbia Act*, the *Forest and Range Practices Act*, the *Wildfire Act*, and related regulations, as of October 2005. No opinion is provided regarding fire protection or road deactivation activities in the field.

In reference to compliance, the term "in all significant respects" recognizes that there may be minor instances of non-compliance that either may not be detected by the audit, or that are detected but not considered worthy of inclusion in the audit report.

The *Audit Approach and Scope* and the *Planning and Practices Examined* sections of this report describe the basis of the audit work performed in reaching the above conclusion. The audit was conducted in accordance with the auditing standards of the Forest Practices Board. Such an audit includes examining sufficient forest planning and practices to support an overall evaluation of compliance with the Code, FRPA, and WA.

C R Mosher

Christopher R. Mosher CA, CEA (SFM)
Director, Audits
January 10, 2006

[i] A forest development plan (FDP) provides the public and government agencies with information about the location of proposed roads and cutblocks for harvesting timber over a period of at least five years. The plan must specify measures that will be carried out to protect certain forest resources prescribed by regulation. It must also be consistent with any higher level plans. Site-specific plans are required to be consistent with the FDP.

[ii] A site plan contains many of the same elements as a silviculture prescription and is designed to identify resource values and define what a free-growing stand will be on that site. However, it is not an operational plan under the Code and does not require review or approval by government to be implemented.

[iii] In January 2004, the *Forest and Range Practices Act* (FRPA) replaced the Forest Practices Code (the Code) as British Columbia's forest practices legislation. FRPA will be phased in over a transition period ending on December 31, 2006 (with government authorized to extend the period until December 31, 2007). The transitional provisions of FRPA state the Code continues to apply to forest practices carried out under a forest development plan. This continues until there is an approved forest stewardship plan, at which point, the requirements of FRPA apply.

[iv] A higher level plan is a forest resource management objective that is established as legally binding by a written order. The objective applies to a resource management zone, landscape unit, sensitive area, recreation site, recreation trail, or interpretive forest site.

Appendix 1:
Forest Practices Board Compliance Audit Process

Background

The Forest Practices Board conducts audits of government and agreement-holders for compliance with the *Forest Practices and Range Practices Act* (FRPA). The Board has the authority to conduct these periodic independent audits under section 122(1) of FRPA. Compliance audits examine forest planning and practices to determine whether or not they meet FRPA requirements.

Most of the *Forest Practices Code of British Columbia Act* (the Code) was repealed on January 31, 2004, and replaced with FRPA. The transitional provisions of FRPA state that the Code continues to apply to forest practices carried out under a forest development plan, until there is an approved forest stewardship plan, at which point the requirements of FRPA apply.

The Board audits agreement holders who have forest licences or other tenures under the *Forest Act* or the *Range Act*. The Board also audits government's British Columbia Timber Sales (BCTS) program. Selection for audit, of both areas and licensees or agreement-holders to be audited, is made randomly to ensure a fair, unbiased selection.

Audit Standards

Audits by the Board are conducted in accordance with the auditing standards developed by the Board. These standards are consistent with generally accepted auditing standards.
The audits determine compliance with the Code and FRPA, based on criteria derived from those Acts and related regulations. The criteria reflect judgments about the level of performance that constitutes compliance with each requirement

The standards and procedures for compliance audits are described in the Board's *Compliance Audit Reference Manual*.

Audit Process

Conducting the Audit

Once the Board randomly selects an audit licensee and area, all activities carried out during the period subject to audit are identified (such as harvesting or replanting, and road construction or deactivation activities). Items that make up each forest activity are referred to as a population. For example, all sites harvested form the timber harvesting population and all road sections constructed form the road construction population.

A separate sample is then selected for each population (e.g., the cutblocks selected for auditing timber harvesting). Within each population, more audit effort (i.e., more audit sampling) is allocated to areas where the risk of non-compliance is greater.

Audit field work includes assessments of features using helicopters and ground procedures, such as measuring specific features like riparian reserve zone width. The audit teams generally spend one to two weeks in the field.

Evaluating the Results

The Board recognizes that compliance with the many requirements of the Code and FRPA is more a matter of degree than absolute adherence. Determining compliance, and assessing the significance of non-compliance, requires the exercise of professional judgment within the direction provided by the Board.

The audit team, composed of professionals and technical experts, first determines whether forest practices comply with legislated requirements. For those practices considered to not be in compliance, the audit team then evaluates the significance of the non-compliance, based on a number of criteria, including the magnitude of the event, the frequency of its occurrence and the severity of the consequences.

Auditors categorize their findings into the following levels of compliance:

Compliance – where the auditor finds that practices meet Code and FRPA requirements.

Not significant non-compliance – where the auditor, upon reaching a non-compliance conclusion, determines that one or more non-compliance event(s) is not significant and not worthy of reporting. Therefore, this category of events will not be included in audit reports.

Significant non-compliance – where the auditor determines a non-compliance event(s) or condition(s) is or has the potential to be significant, and is considered worthy of reporting.

Significant breach – where the auditor finds that significant harm has occurred, or is beginning to occur, to persons or the environment as a result of one or many non-compliance events.

If it is determined that a significant breach has occurred, the auditor is required by the *Forest Practices Board Regulation* to immediately advise the Board, the party being audited, and the Minister of Forests and Range.

Reporting

Based on the above evaluation, the auditor then prepares a draft audit report. The party being audited is given a copy of the draft report for review and comment before it is submitted to the Board.

Once the auditor submits the draft report, the Board reviews it and determines if the audit findings may adversely affect any party or person. If so, the party or person must be given an opportunity to make representations before the Board decides the matter and issues a final report. The representations allow parties that may potentially be adversely affected to present their views to the Board.

The Board then reviews the draft report from the auditor and the representations from parties that may potentially be adversely affected before preparing its final report. Once the representations have been completed, the report is finalized and released: first to the auditee and then to the public and government.